



U.S. Department  
of Transportation

Federal Aviation  
Administration

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# Memorandum

131925 FAA-00-2018-15

Subject: **INFORMATION:** Status Assessment of FAA's  
Cost Accounting System and Practices,  
Federal Aviation Administration

Date: MAY 17 2001

From: Deputy Assistant Administrator for Financial  
Services/CFO

Reply to  
Attn. of:

To: Inspector General

Attached is our further response to the subject audit report dated February 28. As requested by Keith Cosper, we have revised our previous response of April 10, to include target dates for completion of our responses to two of the report's recommendations. We have also added an additional general comment to clarify that this assessment report is focused on implementation of the Cost Accounting System for management purposes within FAA, and does not address its usefulness to support FAA's Overflight fees.

If you have questions or need further information, please contact me at 202-267-8928.

  
John F. Hennigan

Attachment

**Federal Aviation Administration (FAA) Response to the  
Office of Inspector General Report  
Status Assessment of FAA's Cost Accounting System and Practices**

**General Comment**

We understand that the central focus of this report is on the overall progress being made by the FAA in implementing its Cost Accounting System (CAS) on a phased basis throughout the agency. The report's three recommendations are aimed at accelerating the CAS implementation schedule, adding resources to assure the new implementation dates are met, and achieving efficiencies in the operation of the CAS.

Although the report did not attempt to assess the validity of the FAA's Overflight fees, we are concerned that certain comments in the specific emphasis areas and in the eight statutorily mandated assessments could be interpreted to have applicability to Overflight fees. It is our understanding that you did not intend to suggest that the CAS data are inadequate or insufficiently precise to support Overflight fees. In December 1999, your office issued a separate report on the cost and flight data used by the FAA to derive its Overflight fees. We concurred with the three recommendations in that report, and took action to implement them prior to issuance of our Interim Final Rule.

To the extent that your current report could be construed negatively with respect to FAA's ability to support Overflight fees based on the CAS, we will address that in the Final Rule. We believe it is important to clarify these points at the outset, given the extreme sensitivity of Overflight fee matters at the present time due to the ongoing litigation and rulemaking activity.

**Comments on Specific Areas of Emphasis**

**Labor Costs.** FAA understands the need for tracking actual labor by project and activity. We agree it will significantly improve the accuracy of the cost information and we are working with all lines of business and staff offices to implement actual labor distribution. We are using the results of the ARA Labor Distribution pilot and the lessons learned to establish a new process with appropriate controls to ensure the data integrity. However, we differ in opinion on the value of the current cost accounting information, even with estimated labor used in certain areas, such as Airway Facilities.

FAA has already begun to examine and compare costs across facilities. Having this information has begun a new dialogue with managers on how it can change our business. Transition to a performance-based organization will take time and understanding our costs is just one element of the cultural change needed. The assessment report leads the reader to the conclusion that there is no value to the

cost data we have now, because we use estimating techniques for allocating labor costs. We believe there is value in what we already have.

The report noted "FAA initially planned to use only 2 or 3 days of data and outdated maintenance standards to distribute \$424 million of air traffic controller and maintenance technician labor and related costs between En Route and Oceanic services". We agreed with the Office of the Inspector General's concern that the 2-3 day sample was not of sufficient size to distribute costs between the enroute and oceanic services when the issue was first raised by the OIG in December 1999. FAA subsequently improved its costing methodology by using a 40-day, statistically valid, sample of actual sign-in/sign-off data at each oceanic facility to further allocate \$25M of air traffic controller labor cost (out of the \$1.2 billion of directly assigned air traffic labor). Using the best available data, FAA has used staffing standards as a means of allocating \$219M of actual maintenance payroll to specific pieces of equipment in the enroute and oceanic services.

**System Timeliness and Cost.** Back in 1996, the FAA significantly underestimated the level of effort and time it would take to implement a cost accounting system. The 1996 estimate was based on key assumptions, some of which did not materialize:

- *Final selection of the CAS software by July 1996.* Actual selection was made in July 1997 – a one year delay.
- *The Ramsey Pricing methodology will be used with minimal change for CAS.* When the court ruled that Ramsey Pricing was not an acceptable cost-based methodology for overflight fees, the FAA determined that detailed requirements must be developed consistent with federal cost accounting guidance (FASAB4). These requirements were to meet financial reporting needs as well as support overflight fees.

In 1998, we re-examined our overall schedule and budget and made it known publicly that it would take more time and funds to complete this project. We informed the Department, the Inspector General, the General Accounting Office, the Congress, and the aviation industry. We admitted we made a mistake. Unfortunately, the assessment report does not recognize this acknowledgment, which leads the reader to conclude that the OIG pointed out the problems and the FAA never realized it. We find this conclusion misleading.

**Cost Accounting System Efficiency.** The assessment claims that the FAA Cost Accounting System is too complex since it takes about 20 days to process one month of data. A major aircraft manufacturer that uses the same software product (Peoplesoft) for their cost accounting needs takes about 2-3 days. We agree that our system is complex, however, there are other considerations not covered in the report.

- The Peoplesoft product has recognized inefficiencies when processing a large volume of allocations. The aircraft manufacturer customized the software to streamline processing, eliminating days in their processing cycle. The FAA has chosen not to customize the product since it will drive up the cost of future product upgrades.
- The FAA uses several operational systems to develop a basis for allocating costs to our services. The operational systems were never designed to collect the information needed by cost accounting. Therefore, the process of allocating costs is inherently complex.
- In November 2000, the FAA started producing monthly reports. The first month took about 20 days to process. The February 2001 reports were processed in 15 days. We are just beginning to make efficiency improvements. The aircraft manufacturer has been producing monthly reports for several years and has made many improvements to gain processing efficiencies.
- Although the aircraft manufacturer requires only 2-3 days to process data and reports, they require an additional 7-10 days to complete account reconciliation and close their books. When we spoke with managers at the aircraft manufacturer, they agreed that a more realistic time frame is 6-7 days in total – compared to about 15 days for the FAA.

The assessment report states that the FAA is “unable or unwilling to correct problems” encountered with correcting data and re-running reports. We found that the same aircraft manufacturer, to whom we were compared, suffered from the same problem early on in their program. They have re-processed data only twice but found in the long run, unless the error was material, they do not re-process data and re-run reports. They make the correction in the next cycle, inform their customers of the problem, and keep moving. That is the best practice that we are trying to emulate.

The assessment report points out that we should consider designing the system for more usable information, such as the cost of a particular air traffic control shift. The CAS is a management tool designed to meet management needs. These have been defined as the cost of providing air traffic services at specified service delivery points. When FAA management began discussing business requirements, careful consideration was given to what was really needed to manage to desired outcomes. Requirements, such as the cost of a particular air traffic control shift, were considered but they were too detailed to define immediately and could exacerbate the OIG’s point about processing efficiency. Instead, to meet the need for improved shift management, the FAA decided to implement a separate system for that purpose. Then the shift information coupled with cost data would help the FAA manage that function efficiently, yet not burden the cost accounting system. Burdening the CAS with these kinds of requirements would have added a great deal of complexity to the system --- one that the report already cites as too complex.

The report states that the FAA is making little use of the CAS data for benchmarking purposes. In fact, FAA has begun benchmarking enroute and oceanic facilities within the agency as well as leading efforts to benchmark air traffic control providers against each other. We actively participated with the airline C/AFT<sup>1</sup> group effort to benchmark eight leading international air traffic control (ATC) providers. The ATC providers include Canada, Australia, New Zealand, and Germany. This is a very difficult process to undertake as not all countries report their costs the same way due to different accounting standards worldwide. Furthermore, there is an immense difference that must be reconciled in how ATC services are provided. For example, FAA has separate enroute centers, but combines towers and approach control functions. Most other countries combine enroute and approach facilities, while leaving towers independent. These differences must be reconciled before meaningful comparisons can be made. At FAA's request, the efforts being undertaken by ATC providers with CAFT are now being combined with the Civil Air Navigation Services Organization (CANSO) benchmarking efforts.

FAA is also working closely with Eurocontrol in their efforts to benchmark European ATC providers against each other, as well as against the FAA. We expect Eurocontrol to publish the results of this effort in May. We are in the forefront in benchmarking oceanic costs with the eight organizations that provide ATC services in the North Atlantic region. In fact, several airlines have cited the FAA as the leader in how to cost ATC services.

### **Response to Recommendations**

**OIG Recommendation 1:** Establish the cost accounting and labor distribution systems as a top priority and establish the estimated completion date to be when both systems are fully implemented. FAA's goal should be to have both systems fully implemented by September 30, 2002.

**FAA Response:** Concur. The Cost Accounting System and Labor Distribution Reporting are currently, and have always been, one of FAA's top priorities. FAA's current schedule requires both the CAS and LDR to be fully implemented by September 30, 2002.

To ensure we meet the deadline, we are analyzing the current schedule to determine if changing the order of implementation would achieve efficiencies. Changes being considered would implement larger cost organizations more quickly, moving lower cost organizations to the end of the schedule.

**OIG Recommendation 2:** Increase allocation of monetary and personnel resources to meet the established completion date for both systems.

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<sup>1</sup> Communications, Navigation and Surveillance/Air Traffic Management Focus Team

**FAA Response:** Partially concur. In light of the recent changes to implement Labor Distribution more quickly in Air Traffic Services, we are reviewing the schedule and workload to determine if there are shortfalls in money, hardware, or people. Once we have completed this review, we will examine alternatives for providing the necessary resources. We partially concur because there are many competing priorities for Operations funding, for example the replacement of financial and personnel systems. We plan to complete this review by June 30, 2001.

**OIG Recommendation 3:** Review the cost accounting system processes to determine whether more efficient methods can be used without a loss of system effectiveness.

**FAA Response:** Concur. As part of our normal work processes, we continually look for ways to streamline our processing. In fact, we have already made several changes to reduce the time required to process our information and have more enhancements pending. The areas we plan to analyze further include:

1. All allocation steps to determine whether they should be revised, restructured, or reordered.
2. Current overhead allocation methodologies.
3. Impact of replacing cost allocation with direct tracing through labor distribution.
4. Current production processes.
5. Processes to identify and resolve bottlenecks.
6. Current architecture to identify existing shortfalls and future need.

We acknowledge that there is room for improvement but we must properly balance the need for ongoing implementation with any changes to the existing system and infrastructure. Therefore, we will examine where there is room for improvement but cannot guarantee improvements will be made in the same timeframe as the implementation schedule. Those decisions will be made based on available resources, our capability to deliver, and our capability to maintain the system. We plan to complete this work by September 30, 2001.